

Message Text

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TO AMEMBASSY WARSAW

C O N F I D E N T I A L STATE 236897

E.O. 11652: GDS

TAGS: EAIR, PL

SUBJECT: CIVAIR: CHARTER NEGOTIATIONS

REF: WARSAW 6779

1. SUMMARY: US AND POLISH DELEGATIONS HELD EXTENSIVE DISCUSSIONS IN WASHINGTON SEPT. 26 TO 28 CENTERING ON POLISH DISSATISFACTION WITH CURRENT AND POTENTIAL IMPACT OF US-POLAND CHARTERS ON LOT SCHEDULED OPERATIONS. POLISH DEL ALSO INFORMALLY PRESENTED PROPOSAL FOR SPECIAL LOW FARES ON SCHEDULED SERVICES, REQUESTED CONSIDERATION OF FUTURE TRAFFIC RIGHTS FOR NEW YORK-HAVANA AND EXPRESSED INTEREST IN PURCHASE OF US WIDEBODIED AIRCRAFT. DISCUSSIONS ENDED WITHOUT AGREEMENT BUT WITH DOOR KEPT OPEN FOR FUTURE TALKS ON CHARTER AGREEMENT. END SUMMARY.

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2. DISCUSSIONS WERE FRANK AND FRIENDLY. POLISH DEL PRESENTED ITS JUSTIFICATION FOR RESTRICTIVE AUGUST CHARTER POLICY STATEMENT, LINKING EXCESSIVE CHARTER OPERATIONS AND POTENTIAL FOR LOT TO PENETRATE US-ORIGIN MARKET AS CAUSES FOR CONCERN. ALTHOUGH CHAIRMAN ROMAN AND DIRECTOR HAMERSKI STRESSED THAT POLAND WAS SATISFIED WITH THE AUGUST 1976 SALES QUOTA AGREEMENT, THEY IMPLIED THAT DIMINISHED PO-

TENTIAL FOR FOREIGN EXCHANGE EARNINGS BY LOT OCCASIONED
BY THE DOMINANCE OF PAN AM IN THE US-ORIGIN CHARTER MARKET

MIGHT MAKE IT DIFFICULT TO FULFILL THE SALES QUOTA
COMMITMENT AT SOME FUTURE TIME. (NOTE: US FIGURES SHOWED
THAT '77 CHARTERS WERE ONLY SLIGHTLY INCREASED FROM '76
AND THAT LOT CARRIED ALMOST AS MANY CHARTER PASSENGERS
AS PANAM).

3. POLISH DEL SUGGESTED CAPACITY LIMITATION BASED ON AN
ESTIMATE OF TOTAL US-POLAND AIR TRAVEL MARKET, RESERVING
A CERTAIN PORTION FOR SCHEDULED SERVICES AT ACCEPTABLE
LOAD FACTORS WITH THE REMAINDER OF THE MARKET AVAILABLE
FOR CHARTERS ON A 50:50 BASIS. IN ADDITION, IT PROPOSED
MINIMUM CHARTER PRICES BE SET TO LESSEN COMPETITION AND
THAT CHARTERS NOT BE ALLOWED FROM NORTHEAST US.

4. THESE PROPOSALS WERE UNACCEPTABLE TO THE US DEL WHICH
STATED THAT THE USG PREFERRED AN OPEN SKIES POLICY ON
CHARTERS WITH APPLICATION OF COUNTRY OF ORIGIN CHARTER
RULES. US DEL STRESSED THAT IF CHARTER MARKET WAS RES-
TRICTED, PROSPECTS FOR CAB APPROVAL OF LOW SCHEDULED AIR
FARE WOULD BE POOR. LIBERAL CHARTER REGIME WAS NOT AC-
CEPTABLE TO POLISH DEL WHICH TRIED TO DEFEND POINTS IN
AUGUST CHARTER POLICY STATEMENT. DEFENSE OF 200 PASSENGER
LIMIT WAS CONFUSING AND US DEL REQUESTED THAT SOME FLOW
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CONTROL RELATED TO MAXIMUM NUMBER OF PASSENGERS THAT COULD
BE HANDLED AT AIRPORT BE USED RATHER THAN IRRELEVANT
RESTRICTIONS ON AIRCRAFT SIZE.

5. POLISH DEL PROPOSED A GROUP INCLUSIVE TOUR FARE WHICH
WOULD APPLY TO GROUPS OF 40 PASSENGERS IN THE PEAK SEASON
AND TO GROUPS OF 15 DURING THE WINTER. FARE LEVELS RANGED
FROM \$460 TO \$360 FROM PEAK SEASON TO WINTER. POLES ALSO
PROPOSED THAT LOT BE AUTHORIZED TO OFFER A SPECIAL ADVANCED
PURCHASE EXCURSION FARE AT LEVELS FROM \$399 TO \$499 RE-
QUIRING MINIMUM STAYS OF 14 DAYS AND 30 DAY ADVANCED
PURCHASE. POLISH DEL ARGUED THAT THEIR PROPOSED FARES
WOULD PROVIDE CHEAPER, BETTER SERVICE FOR SPECIAL GROUPS,
WOULD MORE FULLY UTILIZE SEATS ON AIRCRAFT IN REGULAR
SERVICE AND WOULD LESSEN THE PUBLIC'S NEED FOR CHARTERS.
THEY WERE ENCOURAGED BY PRESIDENT CARTER'S REFUSAL TO
AFFIRM THE CAB'S ORDER SUSPENDING LOW FARES OFFERED BY PAN
AM, TWA AND BRITISH AIRWAYS TO COMPETE WITH THE LAKER
SKYTRAIN. US CHAIRMAN STRESSED THAT THE PRESIDENT'S
FAVORABLE ACTION ON LOWER REGULAR FARES WAS LINKED TO
CHARTER LIBERALIZATION AND THAT THE PURPOSE OF THE LOW
FARES WAS TO STIMULATE COMPETITIVE SERVICE FOR THE PUBLIC.

6. INFORMALLY, CAB FARE EXPERT INDICATED PROBLEMS WITH ROUTING CONTROLS, GROUP SIZE AND ACCOMMODATIONS BUT STRESSED THAT LOT WAS FREE TO FILE ITS FARES ALTHOUGH IT

APPEARED THE SPECIAL APEX FARE WAS MORE THAN COMPETITIVE AND WAS OVERKILL. POLISH DEL INDICATED IT WOULD FILE PROPOSED FARES WITH CAB IN NEAR FUTURE.

7. ROMAN SAID THAT LOT NEEDED TWO OR THREE WIDEBODIED AIRCRAFT AND MENTIONED SERIOUS CONSIDERATION OF DC-10 AND B-747. HE SAID THAT SUCH A PURCHASE WOULD HAVE TO BE BASED ON ECONOMICALLY SOUND POSSIBILITIES OF EARNING FOREIGN EXCHANGE TO PAY FOR THE AIRCRAFT AND THAT IN-CONFIDENTIAL

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CREASED US-POLAND CHARTERS COULD UNDERCUT THESE POTENTIAL EARNINGS. HE INDICATED THAT HE WOULD HAVE DIFFICULTY WITH "INFLUENTIAL" PERSONS IN POLAND IF IT WAS NOT CLEAR THAT WIDEBODIED AIRCRAFT COULD BE UTILIZED ECONOMICALLY. ACCESS TO THE US MARKET WAS PARAMOUNT IN DEMONSTRATING THE VIABILITY OF THE PURCHASE OF US AIRCRAFT.

8. ROMAN ALSO RAISED THE POSSIBILITY OF LOT FLYING BEYOND NEW YORK TO HAVANA WITH TRAFFIC RIGHTS AND A QUESTION OF POSTAL SHIPMENTS ON LOT FROM NEW YORK TO WARSAW WHICH HAD BEEN SUSPENDED DESPITE AN AGREEMENT BETWEEN THE US POSTAL SERVICE AND THE POLISH MINISTRY OF POSTS AND TELECOMMUNICATIONS. USDEL REPLIED THAT US WOULD HAVE TO REVIEW ANY REQUEST FOR NEW YORK-HAVANA TRAFFIC RIGHTS CAREFULLY BUT ANSWER WOULD PROBABLY BE NEGATIVE. WE UNDERTOOK TO LOOK INTO POSTAL QUESTION AND RESPOND THROUGH EMBASSY.

9. US CHAIRMAN INDICATED THE PROBLEM WITH CHARTERS, IF IT EXISTED AT ALL, WOULD NOT IMPACT BEFORE 1978. HE SUGGESTED THAT GOP PUBLICLY ANNOUNCE THAT IT WAS SUSPENDING APPLICATION OF AUGUST POLICY STATEMENT, AT LEAST FOR US-POLAND CHARTERS, ANNOUNCE IT WOULD NOT RESTRICT AIRCRAFT SIZE BUT ONLY OVERALL PASSENGER FLOW, AND INVITE AIRLINES SUBMIT PRELIMINARY 1978 CHARTER PLANS BY NOV.

30. THESE PLANS COULD THEN BE SCRUTINIZED TO DETERMINE IF CHARTERS MIGHT ADVERSELY IMPACT ON LOT'S OPERATIONS IN 1978. IF PROBLEMS INDICATED, FURTHER CONSULTATIONS WOULD THEN BE HELD.

10. CHAIRMAN ROMAN ASSURED THE US DEL THAT THE POLISH CHARTER POLICY WOULD BE IMPLEMENTED WITH "MAXIMUM FLEXIBILITY AND GOOD WILL" AND ASKED THAT LOT'S CHARTERS BE TREATED IN A SIMILAR MANNER. HE SUGGESTED A FURTHER MEET-CONFIDENTIAL

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ING AT AN EARLY DATE TO ATTEMPT TO REACH A CHARTER AGREE-
MENT WHICH WOULD REGULATE THE CHARTER BUSINESS IN RELATION
TO THE OTHER ELEMENTS TOUCHED ON IN THE NEGOTIATIONS. HE
SAID THAT THE POLISH GOVERNMENT WOULD "THINK OVER" THE
US DEL'S SUGGESTION REGARDING AUGUST POLICY STATEMENT.

11. WHILE OUTCOME OF TALKS WAS NOT DISAVOWAL POLISH SIDE
OF RESTRICTIVE CHARTER POLICY STATEMENT, TALKS WERE USE-
FUL IN FURTHERING COMPREHENSION OF OTHER SIDES' POSITION.
ROMAN'S PROMISE OF "FLEXIBILITY AND GOODWILL", HOWEVER,
WILL NOT RESOLVE THE MAIN PROBLEM FOR US, WHICH IS THAT
TOUR OPERATORS ARE SO TURNED OFF BY POLAND'S ANNOUNCED
POLICIES THAT THEY WILL NOT DEVELOP CHARTER BUSINESS FOR
US SUPPLEMENTAL AIRLINES. USDEL PROPOSAL FOR A PUBLIC
ANNOUNCEMENT SUSPENDING AUGUST POLICY STATEMENT, ABAN-
DONING AIRCRAFT SIZE RESTRICTION, AND INVITING CHARTER
APPLICATIONS IS DESIGNED TO PROVIDE A TRUE TEST OF CHARTER
POTENTIAL, WHILE LEAVING POLES FREE TO PURSUE ANY PROBLEMS
THEY MAY BELIEVE EXIST IN FURTHER CONSULTATIONS. EMBASSY
SHOULD, IN ITS TALKS WITH POLISH OFFICIALS, ENCOURAGE
THEM IN THIS DIRECTION. IT SHOULD ALSO EMPHASIZE POINT
WE MADE THAT USG IS UNLIKELY TO BE SYMPATHETIC TO LOW
SCHEDULED AIR FARES WHICH ARE CLEARLY DESIGNED TO MATCH
OR UNDERCUT CHARTER RATES IN FACE OF RESTRICTIVE POLISH
CHARTER POLICIES WHICH MAKE IF DIFFICULT, IF NOT IMPOS-
SIBLE, FOR US AIRLINES (PARTICULARLY SUPPLEMENTALS) TO
OFFER COMPETITION.

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Message Attributes

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